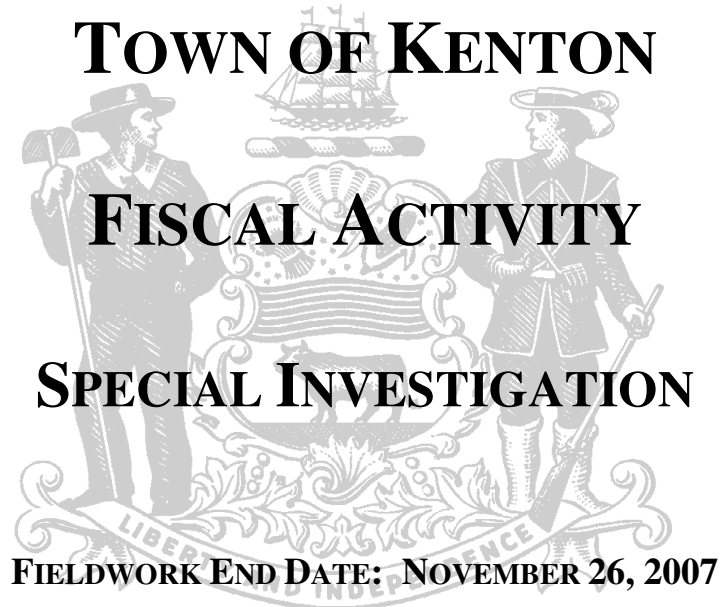


**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**



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State of Delaware  
Office of Auditor of Accounts  
R. Thomas Wagner, Jr. – CFE, CGFM, CICA  
**At a Glance**

*Working Hard to Protect YOUR Tax Dollars*

#### Why We Did This Review

The Office of Auditor of Accounts (AOA) received the following allegations regarding the Town of Kenton (Town):

- Real estate tax bills are not prepared by the Town, resulting in lost income;
- Treasurer's reports are not prepared; and
- Bills are not paid.

In addition, the Town did not return repeated calls to schedule fieldwork for a Municipal Street Aid (MSA) agreed-upon procedures engagement.

#### Background

The Town is located in Kent County, Delaware. As of the most recent census in 2000, the Town's population totaled 237. The Town received funding from the State of Delaware as follows:

- FY05 - \$48,352.97
- FY06 - \$45,521.52
- FY07 - \$52,028.40

**For further information on this release, please contact:**

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#### TOWN OF KENTON – FISCAL ACTIVITY

##### What We Found

- Real estate bills were not prepared for 2005, 2006, and 2007, resulting in lost income of approximately \$11,500.
- Deposits totaling \$103,422.76 were not made timely. Some checks were held as long as 5 months before being deposited. This decreased the amount of interest income that could have been earned.
- Bills totaling \$59,738.11 were not paid timely, resulting in late fees of \$309.14.
- The Town did not maintain support for \$11,020.42 of transactions.
- The Town did not update the authorized signer list when a Council member resigned.
- MSA reports were incorrect.
- Bank reconciliations were not prepared.
- The Town does not have written policies and procedures.

##### What We Recommend

Due to a lack of staff and accounting knowledge, the Town should consider contracting with an accounting firm to perform accounting functions, including property tax assessments and collections.

AOA further recommends the Town perform the following:

- Deposit funds within 24 hours of receipt and record the deposits in the accounting records.
- Correct the FY06 and FY07 MSA reports.
- Repay from general funds \$143.04 to the MSA account for disallowed late fees.
- Obtain proper bonding for the Town Treasurer and any other employee authorized to expend MSA funds.
- Update authorized signature cards with banking institutions.
- Prepare and review reconciliations timely.
- Prepare tax assessments annually.
- Pay bills timely (e.g. by the due date or within 30 days, whichever comes first).
- Record disbursements promptly in the accounting records.
- Develop policies and procedures that address controls such as authorization, segregation of duties, management review, and reconciliation.

**Please read the complete report for a full list of findings/recommendations and to review the Town's response to our findings.**

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# AUDIT AUTHORITY

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Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

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# ALLEGATION AND BACKGROUND

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## ALLEGATION

The Office of Auditor of Accounts (AOA) received the following allegations regarding the Town of Kenton (Town):

- Real estate tax bills are not prepared by the Town, resulting in lost income;
- Treasurer's reports are not prepared; and
- Bills are not paid.

In addition, the Town did not return repeated calls to schedule fieldwork for a Municipal Street Aid (MSA) agreed-upon procedures engagement.

## BACKGROUND

The Town is located in Kent County, Delaware. As of the most recent census in 2000, the Town's population totaled 237. The Town received funding from the State of Delaware as follows:

	MSA	Court of Common Pleas	Justice of the Peace	DEMA	Totals
FY05 *	\$ 7,026.17	\$ 3,272.00	\$ 37,054.80	\$ 1,000.00	\$ 48,352.97
FY06	5,752.92	3,341.25	36,427.35	-	45,521.52
FY07	-	2,669.00	49,359.40	-	52,028.40
FY08	-	191.50	1,346.50	-	1,538.00
Totals	\$ 12,779.09	\$ 9,473.75	\$ 124,188.05	\$ 1,000.00	\$ 147,440.89

\* FY stands for fiscal year. The Town's fiscal year covers the period of July 1 through June 30.

Title 30, Delaware Code, Chapter 51, Subchapter III, Sections 5161 through 5166 govern the use of MSA funds. AOA issued a guide entitled *Guidelines for Municipal Street Aid Funding*, which outlines allowable uses of MSA funds and summarizes relevant sections of Delaware Code. This guide can be found on AOA's website at [www.auditor.delaware.gov](http://www.auditor.delaware.gov).

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# OBJECTIVES, SCOPE, & METHODOLOGY

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## **OBJECTIVE**

The objective of the investigation was to determine the propriety of financial transactions.

## **SCOPE**

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

A review of fiscal activity was performed for the period of July 1, 2004 through October 15, 2007.

## **METHODOLOGY**

Investigative techniques included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.

The investigation consisted of the following procedures:

- Summarize the Town's financial activity.
- Review supporting documentation to determine propriety of receipts and disbursements.
- Develop recommendations to improve controls.

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# CONCLUSIONS

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<b>Allegation</b>	<b>Results of Testing</b>	<b>Conclusion</b>
Real estate tax bills are not prepared by the Town, resulting in lost income.	The Town did not prepare property tax assessments for 2005, 2006, or 2007. This resulted in lost tax revenue and interest income.	Substantiated
Treasurer's reports are not prepared.	The Town Council has not met for several months. Accounting records are incomplete, bills are not paid, and deposits are not made. Hence, Treasurer's reports would not provide meaningful information or an accurate portrayal of the Town's finances.	Substantiated
Bills are not paid.	Bills were often paid late. Bills were not paid from April 11, 2007 through October 6, 2007. Penalties and fees were incurred as a result of untimely payment of bills.	Substantiated

Due to a lack of staff and accounting knowledge, the Town should consider contracting with an accounting firm to perform accounting functions.

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# FINDINGS - MUNICIPAL STREET AID

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## **Finding #1 – MSA Untimely Deposit**

The Town did not timely deposit MSA funds in the amount of \$5,752.92. The check was prepared by the State of Delaware on October 13, 2005; the Town deposited the funds on November 8, 2005.

Good accounting practices require the timely deposit of funds. Untimely deposits decreases the interest income earned and may result in lost checks/funds. A small, volunteer staff contributed to the delay in the deposit.

## **Finding #2 – MSA Annual Reports**

The following issues were noted for the Town's annual MSA reports:

### **FY05**

The Town incorrectly included the reimbursement of November and December service fees in interest income rather than as a reduction to service fees.

### **FY06**

The Town was able to provide an original report for FY06 that was dated 4/1/07; however, the report was never filed with the State Treasurer's Office. The unfiled report contained several errors: (1) The beginning balance did not agree to the prior year ending balance (\$234.09 difference); (2) September interest income was not included in the report (\$47.48); (3) Service fees of \$96 were improperly excluded from the report.

### **FY07**

The FY07 report was due 10/1/07. There was no evidence that this report was prepared.

Title 30, Del. C. §5165(b)(2) states that each municipality shall, "In a form prescribed by the State Treasurer, submit an accurate and complete annual report not later than October 1 of each year to the State Treasurer showing expenditures of municipal street aid funds for the preceding fiscal year ended June 30 . . . ."

Since the FY06 and FY07 reports were not provided to the State Treasurer's Office, Kenton did not receive FY07 and FY08 MSAF in the amounts of \$5,679.53 and \$6,052.43, respectively. The Town's oversight and lack of knowledge of MSA laws and regulations contributed to the late and incorrect filings.

## **Finding #3 – MSA Disbursements**

Per AOA's review of disbursements for the period July 1, 2004 through September 30, 2007, the following issues were identified:

- Late payments from July 1, 2004 through September 30, 2007, totaled \$4,435.04. This resulted in late fees of \$63.14.



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# FINDINGS - MUNICIPAL STREET AID

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- Kenton did not have support (e.g., invoices) for payments totaling \$4,210.96. However, AOA was able to determine the disbursements were for street lights, signs, and sidewalks.
- During testing, AOA determined that payments for street lights were not made from April 5, 2007 through September 30, 2007. AOA reviewed October 2007 activity and found that on October 10, 2007, one check for \$2,249.11 was written for April through September street light usage. Late payments represented \$1,799.53 of the total payment and late fees incurred totaled \$79.90.

Good accounting practices require the prompt payment of valid invoices. Prompt payment allows for uninterrupted, continuous service as well as avoidance of late fees and penalties.

Lack of oversight by the small, volunteer staff contributed to the late payments and penalties.

## **Finding #4 – MSA Bonding**

The Town did not obtain proper bonding for the Town Treasurer for FY07.

Title 30, Del. C. §5165(b)(1) states, "Each municipality shall furnish evidence annually to the State Treasurer that the municipal employees authorized to expend municipal street aid funds are bonded . . . ;"

The Mayor provided a Certificate of Liability Insurance for employee dishonesty coverage of \$50,000. The dishonesty insurance does not provide a secure bond for the Town Treasurer. The Town initially felt as though the dishonesty insurance was sufficient.

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# FINDINGS - GENERAL ACCOUNT

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## **Finding #5 – Authorized Signers**

As of October 12, 2007, the Town had three authorized signers. One of the authorized signers was the former Vice Mayor. This individual left service with the Town on March 6, 2007; however, the Town did not remove her from the list of authorized signers maintained with the bank.

Sound controls require the timely update of authorized signers. The Town's inattentiveness to basic controls resulted in the untimely removal of the individual from the authorized signer listing and could have resulted in the theft and misappropriation of assets.

## **Finding #6 – Reconciliations**

AOA reviewed the Town's bank statements for the period of July 1, 2006 through September 30, 2007. Fourteen of the fifteen bank statements were not reconciled to the Town's general ledger. The September 2006 bank statement was the only month for which a reconciliation was performed.

A reconciliation is a comparison of different sets of data to one another, identifying and investigating differences, and taking corrective action, when necessary, to resolve differences. Differences should be identified, investigated, explained, and corrective action taken as necessary. Reconciliations should be documented and approved by management. Effective internal control procedures require that reconciliations be performed on a timely basis to facilitate the prompt detection and correction of unrecorded or improperly recorded transactions.

Lack of oversight, time and effort of the Town's small, volunteer staff resulted in this finding. Failure to prepare reconciliations contributes to a control environment conducive to fraud and misappropriation.

## **Finding #7 – Untimely Deposits**

Ten deposits, comprised of 42 checks and miscellaneous receipts, posted to the Town's general bank account during the period of July 1, 2006 through September 30, 2007:

- The timeliness of deposit for 9 of 42 checks, totaling \$14,204.82, could not be determined due to lack of documentation maintained by the Town.
- The remaining 33 checks, totaling \$74,922.44 were not deposited timely. Some checks were held as long as two months before being deposited.

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# FINDINGS - GENERAL ACCOUNT

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Per review of the above deposits, AOA determined that no deposits were made from April 3, 2007 through September 30, 2007. AOA expanded its testing of deposits to include October 1, 2007 through October 15, 2007, and found the following:

<u>Check Date</u>	<u>Check Amount</u>	<u>Deposit Date</u>
*	\$ 335.00	10/12/07
*	25.00	10/12/07
04/23/07	4,497.25	10/12/07
05/01/07	1,650.00	10/12/07
05/09/07	3,779.75	10/12/07
05/15/07	273.00	10/12/07
06/01/07	1,650.00	10/12/07
06/12/07	327.00	10/12/07
07/01/07	1,650.00	10/12/07
07/06/07	702.50	10/12/07
08/01/07	1,650.00	10/12/07
08/01/07	1,742.40	10/13/07
08/03/07	644.00	10/12/07
08/06/07	155.00	10/12/07
08/09/07	25.00	10/13/07
08/24/07	36.50	10/12/07
09/01/07	1,650.00	10/12/07
09/04/07	255.00	10/12/07
09/05/07	50.00	10/12/07
10/01/07	<u>1,650.00</u>	10/12/07
Total	\$ 22,747.40	

*\* due to lack of support maintained by the Town, AOA could not determine the date these funds were received*

During the investigation, AOA discovered that the State of Delaware, Justice of the Peace Court (JP Court) had tried to contact the Town regarding an outstanding check written to the Town. The Town did not return JP Court's calls or e-mails. The check, dated April 23, 2007, for \$4,497.25, was finally deposited on October 12, 2007.

Another check, dated October 19, 2006, for \$149, was never deposited by the Town. Per AOA's discussion with the State of Delaware, Court of Common Pleas, the check is now stale and cannot be deposited.

AOA contacted the Town on October 10, 2007, regarding the investigation. Numerous checks were deposited within two days of the Town's notification of the investigation. The checks were in the Town's possession; however, the Town's staff did not take the time or effort to deposit the funds until they were notified of an investigation by AOA. This resulted in lost interest income and increases the risk of misappropriation of funds.

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# FINDINGS - GENERAL ACCOUNT

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## **Finding #8 – Property Taxes**

Property owners within the Town have not been billed for property taxes since calendar year 2004. Based on the 2004 tax records, the Town levied 2004 taxes in the amount of \$3,795. If billed at the same rate for years 2005, 2006, 2007, the Town would be due \$11,385.

The Mayor and Council were aware that property taxes were not billed. The Mayor indicated that due to a small, volunteer staff, the Town was unable to process the billings. The Mayor also indicated that the Town plans to obtain assessed property values from Kent County and subsequently prepare tax billings for 2005 through present.

Lack of oversight, time and effort of the Town's small, volunteer staff resulted in a loss of revenues for the Town, both from taxes and the interest income that could have been earned on the tax revenues.

## **Finding #9 – Disbursements**

Per AOA's review of disbursements for the period July 1, 2006 through September 30, 2007, the following issues were identified:

- Late payments from July 1, 2006 through September 30, 2007, totaled \$14,129.34. This resulted in late fees of \$81.90.
- Kenton did not have support (e.g., invoices) for payments totaling \$6,459.46.
- Nine checks totaling \$19,029.69 did not clear the bank and were carried as outstanding in the check register. One check for police services, dated November 2, 2006, for \$17,875, was reissued on October 13, 2007, upon notification by the State Police that payment was never received.
- None of the payments were authorized by Council.

The AOA expanded the scope of this investigation to include financial activity recorded in Kenton's general ledger from October 1, 2007 through October 15, 2007. The scope was expanded due to the increased activity shortly after the AOA contacted Kenton regarding the investigation. The following issues were identified:

- Late payments from October 1, 2007 through October 15, 2007 totaled \$39,374.20. This resulted in \$84.20 in late fees.
- Kenton did not have support (e.g., invoices) for payments totaling \$350.00.
- None of the 21 payments were authorized by Council.

Good accounting practices require the prompt payment of valid invoices. Prompt payment allows for uninterrupted, continuous service as well as avoidance of late fees and penalties. In addition, outstanding checks should be researched timely and proper action taken.

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# FINDINGS - GENERAL ACCOUNT

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## *Finding #10 – Internal Controls*

The following weaknesses were identified for the Town:

- Policies and procedures - The Town does not have written policies and procedures for accounting functions.
- Authorization of payments - Payments made by the Town were not approved by an authorized person.
- Support documentation - Invoices, contracts, packing slips, receipts, etc. were not maintained for numerous transactions.
- Segregation of duties - The Town's Treasurer was responsible for all accounting functions, including depositing funds, preparing checks, signing checks, mailing payments, preparing and maintaining accounting records, and sporadically preparing bank reconciliations.
- Reconciliations - Reconciliations of bank statements to general ledger were not completed for 14 of 15 months examined.
- Incorrect deposit slip - One deposit on January 30, 2007, in the amount of \$7,079.51 was adjusted by PNC bank by \$200 (decreased to \$6,879.51) and a service charge of \$6.00 was assessed.

Managers are responsible for establishing and maintaining internal controls through written procedures. Written procedures are beneficial for the training of current and new employees/staff. Procedures should include sufficient information to permit an individual who is unfamiliar with the operations to perform the necessary activities. Documentation is an important aspect of control and communication. It generally provides (1) an understanding of an entity's objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave. A lack of written procedures increases the risk of loss of funds, theft of assets, and disruption of operations.

Duties should be segregated among different people to reduce the risk of error or inappropriate action. In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. When these functions cannot be separated, due to small departmental size, a detailed supervisory review of related activities is required as a mitigating control activity. Good business practices and sound internal control for segregation of duties reduce the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties.

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# RECOMMENDATIONS

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Due to a lack of staff and accounting knowledge, the Town should consider contracting with an accounting firm to perform accounting functions, including property tax assessments and collections.

AOA further recommends the Town perform the following:

- Deposit funds within 24 hours of receipt and record the deposits in the accounting records.
- Correct the FY06 MSA report and file it with the State Treasurer's Office.
- Prepare the FY07 MSA report and file it with the State Treasurer's Office.
- Repay from general funds \$143.04 to the MSA account for disallowed late fees.
- Obtain proper bonding for the Town Treasurer and any other employee authorized to expend MSA funds. The Town should annually provide evidence of the bonding to the State Treasurer.
- Update authorized signature cards with banking institutions.
- Prepare reconciliations timely. The reconciliations should be signed and dated by the preparer to denote timely preparation. Reconciliations should be reviewed for accuracy. The reviewer should also sign and date the reconciliation.
- Prepare tax assessments annually, to ensure timely receipt of revenues and to avoid placing undue burden on the Town's taxpayers.
- Pay bills timely (e.g., by the due date or within 30 days, whichever comes first).
- Record disbursements promptly in the accounting records.
- Ensure payments are not made without a valid invoice.
- Research and resolve outstanding checks.
- Maintain voided checks with accounting records.
- Develop policies and procedures that address controls such as authorization, segregation of duties, management review, and reconciliation, as well as be sufficiently detailed to provide:
  - An understanding of the Town's objectives,
  - A basis for training new personnel;
  - A means of communicating common information;
  - A source of information about accounting controls, and
  - A source of information that will aid in providing continuity in the event experienced personnel leave.

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# AUDITEE RESPONSE

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Town of Kenton response to Audit, 11/26/07 by Office of Auditor of Accounts.

The audit of the Town of Kenton's accounts brought to light many flaws in our day to day maintenance of these accounts, but we are thankful that no money is missing and our books are balanced. The major findings of the audit and the recurrent recommendations of the auditors appear to have the same focus. Our procedures or rather, lack of procedures is hindering us from doing the proper job of managing our accounts.

The Town will establish a handbook listing the delineation of duties for each council member as well as establishing policies and procedures to manage our accounts in a professional manner. Topic such as segregation of duties, proper internal controls and basic accounting procedures will be included along with policy requirements of all of the government agencies we interact with. The list of recommendations by the auditors will all be included.

Our town, as with many other small towns, is being overseen by a small group of volunteers comprising our Town Council. The members of Council are subject to change at least every two years. Due to this fact each new volunteer must divide his or her spare time between friends, family and the Town. Some members of Council will devote more time than others but we need to, once again, get every members of Council involved in the daily routine of overseeing the Towns business.

The Town Council should, as a group, be capable of handling the affairs of the Town. The Council will, however, seek the services of an accounting firm to manage our accounts if we find difficulty in giving enough of our time to efficiently follow our established policies.

This audit, in effect, will make our town more confident in its Council. They have seen that our books are balanced with no misappropriation of funds and they see by our response to the audit that we admit to our short comings and will strive to make our Council a more professional group of volunteers.

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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Mayor and Council of the Town of Kenton, Delaware